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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 001150

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SUBJECT: LET'S MAKE A DEAL (OR TWENTY): PUTIN IN ANKARA

REF: ANKARA 1100

Classified By: Ambassador James Jeffrey for reasons 1.4(b,d).

¶1. (C) Summary. Russian Prime Minister Putin's August 6 visit to Ankara resulted in a flurry of deals and media frenzy, further heightened by the last-minute participation of Italian Prime Minister Berlusconi. The visit focused on energy pipelines and economic cooperation, and twenty separate agreements and commercial deals were announced. The most significant are: 1) Turkish support for South Stream, including the possibility/possibility of routing the project through Turkey's exclusive economic zone in the Black Sea; 2) agreement to extend and expand Blue Stream (including Blue Stream II) together with Italy and use it to export to third countries; 3) extension of the West-1 line contract, reportedly for an additional 20 years; 4) a commitment by Russia to provide oil throughput for the Samsun-Ceyhan oil pipeline; and 5) a commercial deal to build an oil refinery and LNG facility in Ceyhan. Additional deals will ease customs tensions, encourage cooperation on nuclear power, formalize an annual joint economic commission, and facilitate research and cultural exchanges. Defying the conventional wisdom, there was no agreement reached on the nuclear power plant tender, with both sides reportedly still dickering over price. The visit has been presented as a coup for both sides, and Turkey certainly achieved some major goals, and PM Erdogan said the right things about energy "diversity" but the big winner may be Putin, who managed to tie Turkey even more tightly into the Russian sphere of energy influence. End summary.

¶2. (U) Russian President Vladimir Putin visited Ankara August 6 and met with Prime Minister Erdogan to discuss a variety of bilateral economic issues, with a heavy focus on energy. At the last minute, Italian Prime Minister Silvio Berlusconi dropped by the party, presumably due to the heavy involvement of Italian firm ENI in Anatolian pipeline projects. (Note: Berlusconi's visit was clearly a surprise even to the Italian Embassy, as almost all the high-level officials there are currently on vacation. End note.) In the afternoon, Erdogan and Putin signed two significant agreements on cooperation in gas and oil, with Berlusconi observing. Lower-level officials also signed eight additional agreements coming out of the August 4-5 Joint Economic Commission meeting. Adding in two nuclear cooperation agreements signed between the Turkish Atomic Energy Agency (TAIK) and its Russian counterpart and eight commercial deals between Turkish and Russian companies, the visit delivered twenty separate agreements.

Yes to South Stream, Blue Stream, West-1

¶3. (C) According to Berris Ekinici of MFA's Energy Affairs

Department, the gas protocol addresses three main issues: South Stream, Blue Stream II, and the West-1 Line.

-- South Stream: The GOT will permit Russia to conduct a feasibility study in the Black Sea by November 1. Depending on the result of that study, and no later than November 1, 2010, the GOT will issue a permit for construction of the pipeline through its exclusive economic zone in the Black Sea. The GOT did not, however, commit to become a party in the actual project.

-- Blue Stream: The protocol contains broad agreement on the construction of Blue Stream II and the export of gas from that line to countries in the Eastern Mediterranean (Israel, Cyprus, etc.) It also provides for joint work to establish an energy terminal and LNG processing facility in Ceyhan (the actual project will be handled by Rosneft on the Russian side and Aksa on the Turkish side).

-- West-1 Line: The protocol itself merely states that the contract for West-1 will be extended (it is due to expire in 2011) without delving into details. Ekinici noted that in the meeting minutes the GOT demanded a price revision and relief on take-or-pay provisions, and the Russian side agreed to evaluate those requests. This extension will be extremely important for meeting Turkey's internal gas needs in the medium term.

14. (C) In the press conference following the signing ceremony, the two PMs differed on the impact that South Stream would have on Nabucco. Putin bluntly stated "South

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Stream and Nabucco are rival projects" but conceded that there may be enough gas for both projects to be viable. Erdogan took a more conciliatory tone, arguing that "diversity" is a more appropriate word to use than "rivalry" and that both projects aim to deliver more gas to Europe. In a separate meeting August 7 with the Ambassador, MFA Undersecretary Ertugrul Apakan underscored the Prime Minister's message and stated that Turkey is fully committed to the success of the Nabucco project.

15. (C) Oktay Sen, the General Manager of OMV's office in Turkey (a Nabucco partner), dismissed the deal with Russia as having achieved very little for Turkey and worried that it puts the future of Nabucco at real risk. He observed that BOTAS will be negotiating in Azerbaijan this weekend and that a successful result will be critical for the future of Nabucco. If a deal is signed for Shah Deniz Phase II gas, then that will help counteract the negative implications of the South Stream announcement. If not, he stated, then the promise of potential Iraqi gas will not by itself be sufficient for partners to commit to Nabucco and "some will surely jump ship to South Stream."

16. (C) Emre Engur, Head of the International Projects Department at BOTAS, was less pessimistic but also noted that BOTAS had presented to the GOT its objections to cooperating with Russia on South Stream, as there is nothing in the project for Turkey if it just passes through Turkish territorial waters. He was more sanguine about the effects on Nabucco, as he was still skeptical of the commercial viability of South Stream and its expected USD 20 billion price tag. Echoing Sen, however, he stated that quick progress (in the form of firm financing or agreements to provide gas) is necessary on Nabucco in order to counteract any negative public perceptions arising from the signing.

Oil Protocol - Ceyhan as an Energy Hub

17. (C) In the oil protocol, the Russians agreed to provide throughput for the planned Samsun-Ceyhan pipeline (being built in partnership with ENI) although they declined to commit to any specified amounts until a feasibility study is

concluded. They also agreed to build a refinery in Ceyhan, which plays into the Turkish desire to set Ceyhan up as a major energy hub and the preferred bypass to the Bosphorus. Achieving this throughput commitment was a major goal for the Turkish delegation (see reftel) and a victory for Erdogan.

Nuclear Issues

18. (C) It had been widely expected that the status of the nuclear power plant tender would be decided as part of Putin's visit (see reftel for details), but continued disagreements on pricing precluded a final deal. Instead, two agreements were signed on Peaceful Uses of Nuclear Energy and on Early Notification of Accidents at Nuclear Facilities. These will provide a framework for cooperation if the tender is awarded the AtomStroyExport consortium (as it is still expected to be), but fall short of the Russian goal of getting the deal finished.

Media Highlights

19. (U) Putin's visit dominated all Turkish media outlets, most of which took the line that Turkey has entered into a new era with Russia.

Mainstream pro-government Sabah:

- "The Agreement of The Century"
- "Prime Minister Erdogan and Russian Prime Minister Putin established a global energy bridge and clamped together the fates of Turkey and Russia"
- "A new dimension has been added to Ankara-Moscow relations
- intergovernmental cooperation."

Islamist-oriented pro-government Zaman:

- "These signatures deepened Ankara-Moscow relations."

Mainstream Hurriyet:

- "Important steps have been taken in energy cooperation."

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Turkey said 'yes' to Russia's request to ship natural gas to Europe through pipelines under the Black Sea bypassing Ukraine."

Mainstream Vatan:

- "New Era With the Kremlin"
- "Huge energy projects, which will change the course of Turkey-Russia relations, were signed."

Leftist-nationalist Cumhuriyet:

- "Erdogan defined the Nabucco and South Stream projects as alternatives to each other, while Putin said the two projects were rivals."

Mainstream Haberturk:

- "Putin Won."

Liberal Radikal:

- "A Nuclear Plant in Exchange for Petrol"

110. (U) In an August 7 interview with Reuters, Energy Minister Taner Yildiz said he did not agree with allegations that Turkey's giving a seismic research permit for South Stream would have a negative impact on support for Nabucco. Yildiz said these two projects would not have any impact on each other except for timing. Responding to a question on the possibility of Turkey's partnership in South Stream,

Yildiz said the GOT would need to see the seismic studies and get more details before making a decision. He said neither South Stream nor any another project would interrupt Turkey's commitment to Nabucco, adding "Turkey is backing its commitments on Nabucco." Yildiz claimed that Europe would need both Nabucco and South Stream to meet its future long-term energy demands, and he echoed Erdogan's comments that the two projects would provide diversity rather than being competitors.

Comment

¶11. (C) Following a series of stalled diplomatic initiatives, most notably the Israel-Syria indirect talks, Putin's visit provided Erdogan a very public success to demonstrate to his domestic audience. In addition, following on the Nabucco signing last month, the GOT has taken tangible steps toward making Turkey a legitimate energy hub, which will play well with domestic constituencies. From Ankara's perspective, this new role will also increase its leverage with/against Europe, especially in EU negotiations for the Energy Chapter, and add to its international credentials as a rising global player. The unexpected attendance of Berlusconi, a close friend of Erdogan, also provided a veneer of European support for the energy projects. Reflecting a relationship built upon shared perception of exclusion from the West and fulfillment of basic economic needs, Putin's visit and the overly choreographed ceremony will win Russia some favor in the current administration.

¶12. (C) Both Turkey and Russia walk away from this visit feeling like winners. Turkey gets an extension of its West-1 gas contract, oil for its Samsun-Ceyhan pipeline, and refinery and LNG terminals for Ceyhan to help it become a major energy hub. Russia gets Turkish support (if lukewarm) for South Stream and tentative permission to build it, as well as further development of Blue Stream as an access route to the Eastern Mediterranean. Leaving aside the details of the arrangements, however, the big winner in all of this may be Putin. Recognizing the Turks' preference for state-to-state government signing ceremonies and their mercantilistic approach to economic relations, Putin swept into Ankara like a rockstar and delivered a thick stack of deals. The net result of these will be to lock Turkey more tightly into the Russian sphere of influence and to increase its dependence on Russia to meet its energy needs.

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